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Office of the Secretary

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When I accepted your invitation, I intended to report on the structure of agriculture project that is underway in and beyond the USDA.

Since that project involves new research into what makes up American agriculture, how it is controlled and organized, and what makes it tick, an intensive review of past and present farm policy, and a national public discussion about the future of agriculture and rural life, it would have been an appropriate topic for a forum on "Challenging the 80's."

But that report will have to wait.

I'm sure that the Soviet invasion of Afghanistan and President Carter's response to that act of naked aggression is foremost on your minds, so that's what I'm going to talk about today.

My remarks will be brief. They are intended to respond in broad terms to some of the public comments about the suspension of grain and food shipments to the Soviet Union. More details will be covered in the question and answer period.

It has been said:

1. That the President broke a promise to farmers never to impose a grain embargo...

2. That farmers will be badly hurt by the loss of sales to the Soviets...

3. That the Soviets will not be hurt, because (a) embargoes never work; they'll get the grain from other sources; or, (b) the loss of 17 million metric tons would not pose that much of a hardship on them anyway.

Let me take these in order:

1. The President said he would not impose a grain embargo under any circumstances short of a national emergency.

Now, if you agree that the potential consequences of the Soviets' brutal assault on Afghanistan make it the most dangerous act of international aggression since World War II, then the present situation surely constitutes a national emergency.

Remarks prepared for delivery by Secretary of Agriculture Bob Bergland before the Pacific Northwest Farm Forum, Spokane, Washington, January 16, 1980

A President can suspend or curtail the export of goods--including agricultural products--for three reasons: national security, foreign policy, or a short supply in the American economy. In this instance, President Carter took the action because he was convinced it was in the interests of national security and foreign policy.

This is one of the factors that distinguish this President's directive from those issued in the previous administration. In 1974 and again in 1975, the Ford administration held up sales of grain to Russia because of tight domestic supplies.

A second distinguishing feature is that the suspension of grain shipments is but one among a number of actions President Carter has ordered to signal our outrage to the Soviets. He also curbed the export of other food products, manufactured goods, industrial and high technology products. He reduced Soviet fishing privileges in U.S. waters. He cut back our participation in U.S.-Soviet diplomatic, trade and cultural relations. He ordered a reduction in Soviet commercial air flights to this country.

The third difference between President Carter's action and those of his predecessors has the most significance for U.S. farmers.

When the President announced the curtailment of grain shipments, he promised that the administration would take every action under every authority to reduce the impact on our farmers.

To the best of my knowlege, this is the first time in history that an administration ever took specific actions to ease the burden that could otherwise result from the loss of U.S. farm product sales to a foreign customer.

And that brings me to the charge that "farmers will be badly hurt" by the President's order limiting grain shipments.

I'm here to tell you that there is no reason why the actions being taken by this adminsitration should not leave American farmers situated about where they would have been if the full amount of grain ordered by the Soviets had been paid for and delivered.

There is no reason for the undelivered grain to depress market prices because all of that grain is being removed and isolated and will not go back into the market at a lower price than the price that prevailed before the suspension order.

The Commodity Credit Corporation will assume the contractual obligations from wheat exporters and will use all of that wheat for foreign food assistance. The wheat, then will not move back into the commercial market under any circumstances.

The Commodity Credit Corporation also will assume the contractual obligations from the exporters of corn to Russia. In this instance, the CCC can either take actual physical delivery of the corn, or it can sell the contract to another party.

If the CCC takes physical delivery of the corn, the corn cannot be sold back into the market at a price lower than a level of $3.15 a bushel at the farm, because the law requires that the selling price must be at least 150 percent of the loan rate.

If the CCC has the opportunity to sell export contracts it has assumed to a third party, that corn will not be moved back into the market until the farm price is above where it was on January 4, before the grain shipments were suspended.

Let me digress a little here to respond to a separate charge that's been made in the past few days--the accusation that CCC's offer to assume the contractual obligations of the exporters of grain to the Soviets is a move to save the grain dealers, not the farmers.

Put as simply as I can put it, we learned in 12 hours last weekend that if we wanted to protect the farmers of the country from a disastrous collapse of market prices, then we had to keep the grain dealers from losses that would, as one observer put it, "reverberate down through the whole trading system, finally reaching the farmer."

That conclusion was inescapable once we learned that most of the 17 million tons of grain involved in the shipment suspension already was under contract to the grain companies. If the CCC had not been authorized to assume the contracts these companies had with the Soviets, then the banks that financed the grain companies would insist on the companies dumping the grain back into the marketplace, crushing prices, and causing losses of millions of dollars.

The assumption of contract obligations by the CCC will isolate from the market the grain already held by the grain companies for export. What about the grain still owned by farmers and the grain farmers had intended to plant this crop year for export to the Soviets?

To keep this grain from depressing market prices we are expanding the farmer-owned grain reserve and are offering greater incentives for farmers to participate in the reserve program. Accordingly, the Department of Agriculture has:

- o increased the wheat loan price from $2.35 to $2.50 a bushel;
- o increased the corn loan price from $2.00 to $2.10 a bushel, with comparable increases in loan prices for the other feed grains;
- o increased the reserve release price from $3.29 to $3.75 a bushel for wheat --representing 150 percent of new loan price;
- o increased the reserve call price from $4.11 to $4.63 a bushel for wheat --representing 185 percent of the new loan price;
- o increased the reserve release price from $2.50 to $2.63 a bushel for corn --representing 125 percent of the new loan price;
- o increased the reserve call price from $2.80 to $3.05 a bushel for corn --representing 145 percent of the new loan price;
- o increased the reserve release and call prices for the other feed grains comparable to corn;
- o waived first year interest costs for the next 13 million tons (512 million bushels) of corn entering the reserve;
- o increased reserve storage payments from 25 to 26-1/2 cents a bushel for all reserve commodities except oats, which is increased from 19 to 20 cents a bushel.

Several additional moves by the administration already are underway or are under consideration.

To help move U.S. farm products into other foreign markets, the administration is proposing to make the current non-commercial risk assurance export credit program a federally guaranteed--in entirety--program.

Presently, the export credit program features both direct loans and non-commercial risk assurance. Under the new proposal, private U.S. banks would finance export sales, and the Commodity Credit Corporation would reimburse those banks if there is a default. Prior to FY 1980 almost all has been financed directly by the CCC. In effect, the new proposal would encourage broader private participation in export sales of U.S. farm products.

A further comment on the matter of exports:

It is important to note that the export of U.S. farm products will set new all-time records this year--despite the reduction of shipments to Russia. In dollar figures the increase over last year's previous record is expected to come to $4 billion. In terms of volume, the increase is projected to be about 13 million tons.

Israel is shopping for our corn and sorghum; China has just purchased nearly 2 million tons of our wheat. And increased demands are also expected from Egypt and Brazil. Rice exports are expected to rise and the price to increase slightly, and the loss of soybean sales to the Soviets will be made up in part by sales to other nations.

We now project our carryover stocks of corn at around 1.75 billion bushels, 350 million above the previous estimate, but with larger quantities of grain in the reserve, and with higher release prices, we expect the season average price of corn for 1979-80 to be between $2.25 to $2.55 a bushel, compared with an average of $2.20 in 1978-79.

As for wheat, the curtailment of Russian sales will add about 100 million bushels to the previous carryover estimate, but the CCC commitment to buy 4 million tons, as well as the higher release price for wheat in the farmer-owned reserve, encourages us not to change our earlier season-average price forecast of $3.60 to $3.90 a bushel, compared with $2.94 in 1978-79.

Now with regard to other factors that could, in time, affect grain production demand, the administration last Friday outlined a program that could quadruple gasohol production this year and in 1981 provide enough to replace 10 percent of the nation's unleaded gasoline.

To encourage gasohol production, especially through small plants that can be quickly constructed and brought on line, and to encourage farmers to distill their own alcohol for fueling farm equipment, the administration is proposing a series of new and additional aids and incentives, including permanent extension of the exemption of gasohol from federal gasoline taxes, a subsidy for producers who use alcohol as a fuel without mixing it with gasoline that would amount to 30-40 cents a gallon production credit, and direct and guaranteed government loans for the construction of alcohol production facilities.

Lastly, if it looks as though we're still likely to overproduce grain, we are prepared to institute an acreage diversion payment program. That decision will not have to be made until late next month. In my own judgment, the demand prospects I've just outlined leads me to believe we may not have to resort to such a program.

Now before I turn to the reservations I've heard expressed about the wisdom and the potential effectiveness of curtailing grain sales to the Soviets, let me make a final comment.

I've already said that there is no reason why our farmers should take a financial bath because of the President's decision. The market is rallying, after an early drop, and all of the actions the President has taken should work to protect prices and farmers.

Secondly, the suspension of sales should have no immediate or sharp affect on inflation, because there should be little change in market supplies or prices.

Third, the actions to ease the burden on farmers will cost money, no doubt about it. But not as much as many suspect. We'll be out what it costs to buy up the excess wheat and send it to needy countries. We'll be out the interest waived for the next 13 million tons of corn entering the farmer-held grain reserve and the increments in reserve storage payments.

But most of the other outlays involved are in the form of loans or credits which the Treasury will recoup in time.

Then there is this to consider. How do you measure costs in a situation like this? How much is too much to spread the burden that otherwise would have been borne by farmers alone? How much is too much to spend in responding to a threat to our security? How much is too much when measured against the costs of taking direct military action, instead of curtailing exports?

And now let me turn to the conjecture that embargoes never work because the affected country can always get the commodity from another exporting country.

Will the Soviets be able to get from another source the grain they now won't get from us?

No one can guarantee an airtight embargo. We know that. But most of the major grain exporting nations agreed to back us last Saturday, promising not to--and I quote--"directly or indirectly replace" the 17 million metric tons we suspended from shipment to the Soviets. I think it's going to be about as airtight as it can be.

The United States, Australia, Canada, and the nine member nations of the European Economic Community control almost 85 percent of all the grain in the world available for export.

As to the Soviet threat to make up that shortfall with direct purchases of meat from other countries, that too is wishful thinking. Not only is there a worldwide shortage of meat available for export, but most of the meat exporting countries have already contracted to sell what is available to traditional customers.

All right, then, how about the last conjecture--that the Soviets won't really be hurt much by the curtailment of U.S. exports anyway, even if they can't get those commodities elsewhere?

Let's try to put this into perspective:

First of all, the Soviet Union has been plagued by crop disasters and harvest shortfalls and has become increasingly dependent on food imports.

Second, the Soviets, have been relying on us for about two-thirds of their grain imports.

Third, they have used these imports to feed livestock and poultry and improve the meat diets of their people.

Now the Soviets will have to feed substantially less grain to livestock. We expect that the grain available to feed animals will drop by 5 to 11 percent.

Some have speculated that the loss of feed grain will encourage the Russians to slaughter off their cattle and forestall the pinch with a sudden glut of meat in their marketplaces. I doubt that. Though they will probably slaughter more than the normal amount of hogs and poultry, I think they'll hang on to as much of their cattle herd population as they can. My own guess is that they'll begin to feel the meat bind sometime this summer.

But the potential impact of our reduced feed grain shipments to the Soviets can only be appreciated in the context of the overall domestic situation in that country.

Russia is the only developed nation where average age at death has been dropping and the infant mortality rate rising. Alcoholism is a growing problem, particularly among European Russian youth.

The Soviets' industrial productivity rate is tailing off. Their Gross National Product may be dropping. The plan targets for 1979 in coal, oil, mineral fertilizers, plastics, paper and other products were not met. There are shortages right now of soap and detergents and even matches.

The London Economist recently made this observation:

"There is racial unrest in Soviet Asia; all Siberian projects are incredibly behind schedule; transport and other basic services have been bureaucratized into undersupply but left with crazy overdemand; raw materials arrive months late; delayed deliveries of foodstuffs and completed products are left to rot or rust in the snow; Mr. Brezhnev has not made the trains run on time."

Now suddenly add to that situation a cut-off of high technology imports needed for production, a decline in meat supplies because of the loss of expected U.S. feed grains, and the cutback in supplies of fish for the marketplace because we have curtailed Soviet fishing in American waters (and other nations may duplicate our sanctions), and it seems to me that discontent among the Russian people is bound to grow.

Now I don't know if the Old Guard or some New Guard is calling the shots in the Kremlin these days, but I've got a hunch that before too long the leadership is going to have to spend more time soothing unhappy folks in the homeland, and a lot less time savaging weak little nations like Afghanistan.

If that happens, then the restrained but telling actions taken by the President will have been more than vindicated.

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